

## Trump & Trade: Feeling the pressure

President Trump has announced the latest round of tariffs on imports from China with China vowing an immediate response. With the president's approval rating at a four-month low and the mid-terms fast approaching, there is no prospect of an imminent easing in tensions



### More and more tariffs...

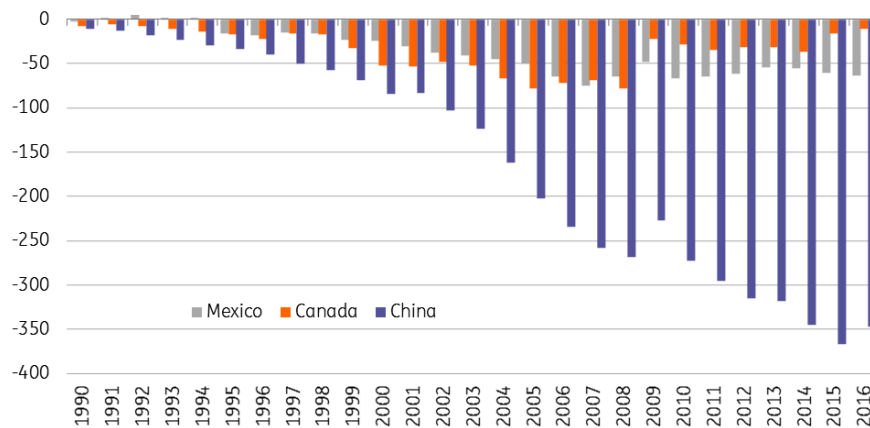
President Trump has announced the latest round of tariffs on \$200 billion of Chinese imports, which will start next week. After considering evidence from impacted businesses he has started the rate at 10% and excluded some technology items, safety products and chemicals. However, the tariff will be increased to 25% next year if China fails to make concessions on trade practices and intellectual property protection.

The US had already imposed tariffs on \$50 billion of Chinese imports so this takes us up to \$250 billion of goods that are taxed - just under half the value of all Chinese imports last year. However, should China retaliate - Bloomberg headlines suggest there will be retaliatory tariffs launched simultaneously - then all Chinese imports into the US will face tariffs. As such this is a real ratcheting up of trade tensions that certainly heightens the risks for global and US growth.

Our China economist, Iris Pang [suggests that China is unlikely to return to the negotiating table](#)

given the threats. There is little sign yet that Chinese authorities are willing to acquiesce and that more monetary and fiscal stimulus is likely to be used to try and offset the negative impact of trade protectionism. However, a new round of trade tariffs on US imports into China is clearly being readied with aerospace and car companies most likely in the firing line.

## US trade deficit driven by China

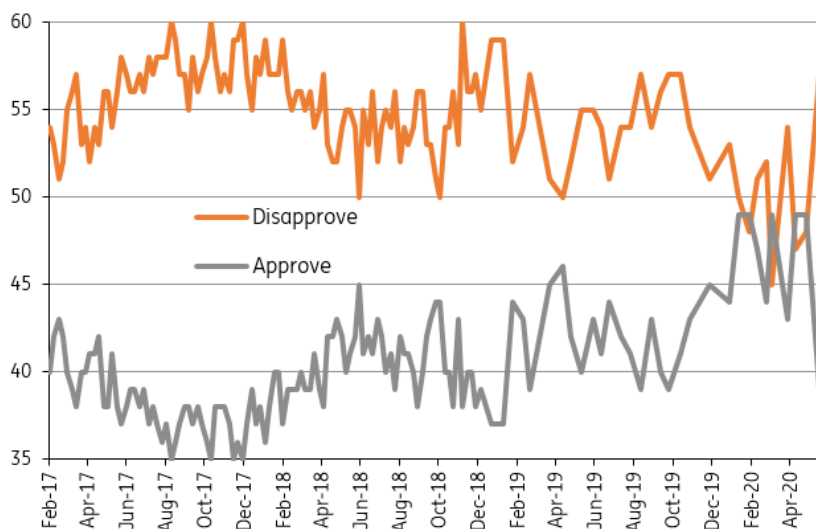


Source: Macrobond, ING

## A president under pressure?

This has to be viewed in the context of the US mid-term elections. President Trump has demanded that the bilateral US-China trade deficit is cut by \$200 billion by 2020 – the goods deficit totalled \$370 billion in 2017. The economy and trade had been seen as Trump's strong point, however, his presidential approval rating has dropped four percentage points over the past month to just 38%. This is lower than any other president at this stage in his presidency in the past 70 years and these latest trade protection measures could be seen as an effort to bolster his standing.

## Trump Presidential approval rating



Source: Gallup

## Risks for the economy

With the Republicans lagging well behind the Democrats in generic polls there is a growing likelihood of a split Congress – House controlled by Democrats and Senate controlled by Republicans, Trump may increasingly be limited to executive powers, which include trade. This suggests little prospect of a de-escalation from the US side anytime soon.

In terms of the economy, President Trump has arguably tried to limit the damage to the US by excluding some products and starting the tariff at 10%, but this will still put up costs that may well be passed onto consumers. It also adds to corporate uncertainty, although the US administration would say that by staggering the rate of the tariff it gives US companies time to move more manufacturing back to the US so they can avoid the full 25% tariff if China doesn't back down.

As for the outlook for Federal Reserve policy, the official position up until now has been that tariffs pose a threat to medium-term growth and so the reaction function is more likely to be one of caution rather than hiking rates to combat higher inflation brought about through tariffs.

For now, the US economy is very strong with the Atlanta Fed Nowcast GDP estimate suggesting GDP is likely to have accelerated to 4.4% from 4.2% in 2Q18. But the effects of a strong dollar, higher US interest rates, fading US fiscal stimulus and emerging market woes are likely to gradually exert a toll. Trade tensions will only exacerbate the downside risk. We look for GDP growth to slow to closer to 2% next year with the Federal Reserve taking a more gradual approach to rate hikes of just two 25 basis point moves for the full year 2019 versus four in 2018.

### Author

#### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.